VENCAP EQUITIES ALBERTA LTD.

ECONOMIC IMPACT STUDY

OCTOBER 1988

VENCAP EQUITIES ALBERTA LTD.

ECONOMIC IMPACT STUDY

HIGHLIGHTS

- Since 1983, 14,900 full-time annual jobs (person-years of work) provided to Albertans are attributable to Vencap.
- In 1988 alone, 5,000 full-time jobs in Alberta are attributable to Vencap.
- The Government of Alberta has realized a 10.3% cash return on the $200 million investment in Vencap, considering direct interest paid and Vencap's "attributable" amount of taxes generated.
- $40 million of taxes paid to the three levels of government by the Vencap affiliates in 1988 are attributable to Vencap.
- $12.5 million of taxes will be paid in 1988 to the Province of Alberta by affiliates.
- In 1988, $181 million in exports out of Alberta are attributable to Vencap.
- Since 1983, $21 million attributable to Vencap has been spent on research and development in the province.
- In 1988, $349 million spent by affiliates on the purchase of goods and services in Alberta is directly attributable to Vencap.
- In 1988, $386 million of assets in use in Alberta are attributable to Vencap.
- Since 1983, an estimated 26,000 hours of management assistance has been provided by Vencap employees to affiliates.

VENCAP EQUITIES ALBERTA LTD.

ECONOMIC IMPACT STUDY

EXECUTIVE SUMMARY

INTRODUCTION

Vencap Equities Alberta Ltd. has been actively investing in Alberta for five years. Vencap is a venture capital corporation focussing on business investments that will benefit Albertans. As of October 1988, Vencap has invested more than $100 million of its initial capital base in 30 companies.

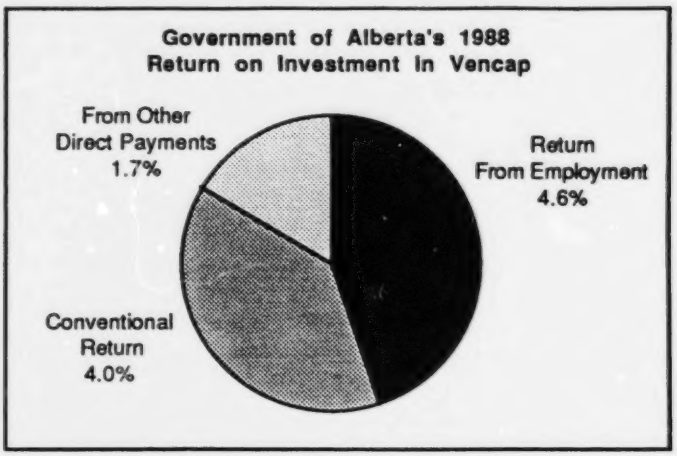
This study evaluates the impact that Vencap and its portfolio of affiliate companies have had on the Alberta economy over the past five years. "Economic impact" is described in terms of taxes paid to governments, employment levels in Alberta, export sales generated, research and development expenditures in Alberta, capital and operating expenditures, assets used in Alberta, and management assistance provided by Vencap to Alberta companies. The rate of return to the Province of Alberta on its investment in Vencap is also estimated.

Two levels of economic impact are reported in the study: "total impact" and "impact attributable to Vencap". Total impact reflects all of the economic benefits of Vencap's affiliates since Vencap's investment. Although we believe that at least six of the investee companies would not be in existence today if it were not for Vencap's investment, to be more conservative, an "attributed" impact is reported that takes a portion of the total impact of each affiliate company. The portion is based on Vencap's investment as a percentage of the share capital of the investee company.

As highlighted following, the economic impact on Alberta generated by Vencap and its affiliate companies has been significant.

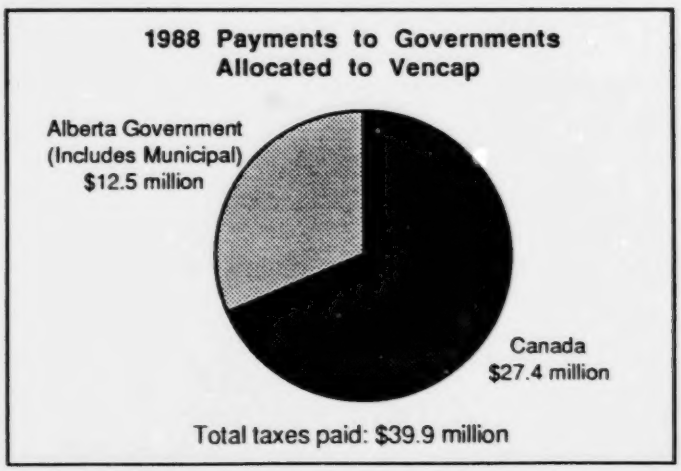
RETURN ON GOVERNMENT INVESTMENT

The Government of Alberta has realized a 10.3% cash return on the $200 million investment in Vencap, considering direct interest paid and Vencap's "attributable" amount of taxes generated. This is a conservative measure. The actual annual return is likely higher.



TAXES

$40 million of taxes paid to the three levels of government by the Vencap affiliates in 1988 are attributable to Vencap. $92 million will be paid in total. These estimates include taxes generated from indirect employment.

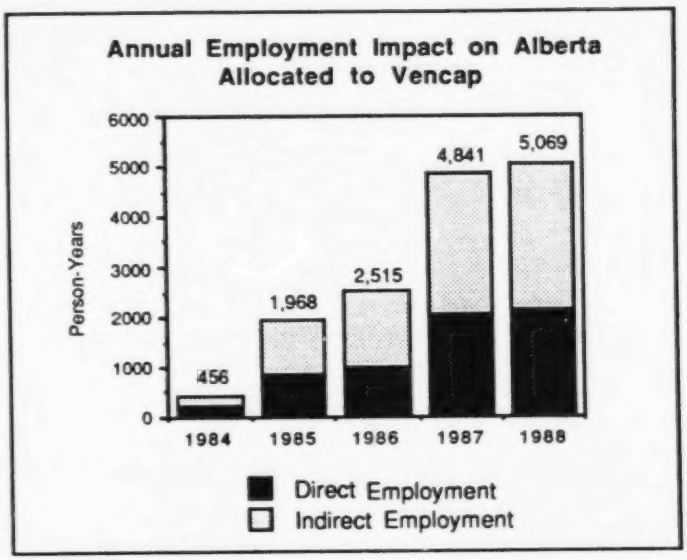


$12.5 million of taxes will be paid in 1988 to the Province of Alberta by affiliates, considering only Vencap's attributed portion. The total amount paid by affiliates to the Alberta government will be $32 million.

JOBS

Since 1983, 14,900 full-time annual jobs (person-years of work) provided to Albertans are attributable to Vencap. This includes 6,200 direct person-years of employment and 8,700 indirect person-years. Indirect employment is a result of further spending effects of direct employment.

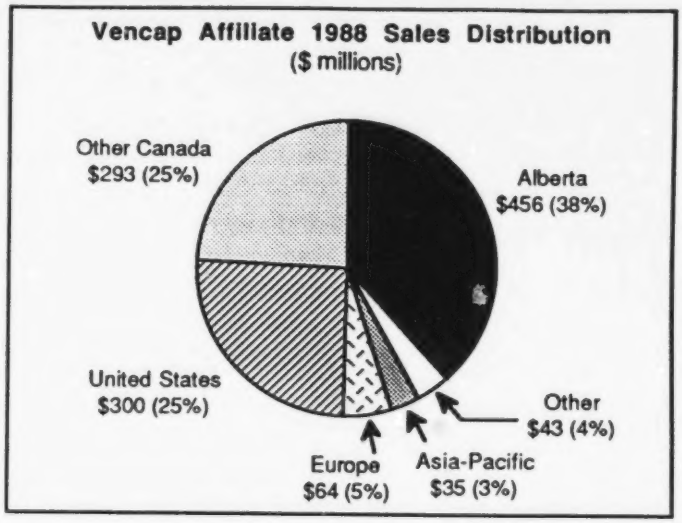
In 1988 alone, 5,000 full-time jobs in Alberta are attributable to Vencap. The number of jobs in Alberta is expected to grow as a direct result of Vencap investments.



EXPORTS

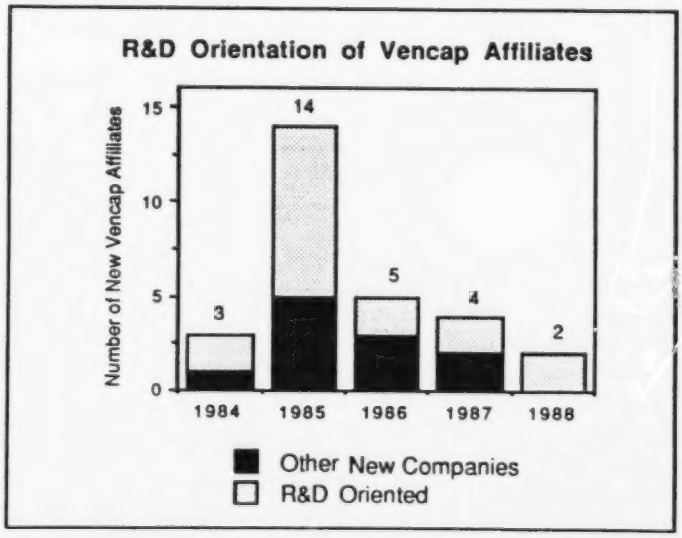
In 1988, $181 million in exports out of Alberta are attributable to Vencap. The total amount of exports by affiliates is $735 million. Vencap affiliates sell a range of products and services across Canada and around the world, thereby generating important foreign exchange earnings.

In 1988, $62 million in exports out of Canada are attributable to Vencap. The total amount of international exports is $442 million. The United States is currently the most significant export market, accounting for 68% of foreign exports by affiliates in 1988.



RESEARCH AND DEVELOPMENT

Since 1983, $21 million attributable to Vencap has been spent on research and development in the province. The total amount spent by affiliates is $43 million since 1983.



Over half the companies in the Vencap portfolio are actively involved in research and development. These research and development expenditures will have positive economic impact on the Province of Alberta into the twenty-first century.

EXPENDITURES

In 1988, $349 million spent by affiliates on the purchase of goods and services in Alberta is directly attributable to Vencap. Total expenditures by affiliate companies will be $800 million during this one year.

In 1988, $16 million will be spent on capital expenditures including land, building and equipment, attributable to Vencap. Total expenditures by affiliate companies will be $50 million.

ASSETS

In 1988, $386 million of assets in use in Alberta are attributable to Vencap. Total assets in use are valued at $1.1 billion.

EXPERTISE

Since 1983, an estimated 26,000 hours of management assistance has been provided by Vencap employees to affiliates.

Vencap employees currently participate on the Boards of Directors of 21 affiliate companies.

CONCLUSION

The economic impacts listed above are conservative estimates. Our methodology did not include calculations of second and third level impacts from expenditures, nor did it consider that several companies would not have survived or located in Alberta without Vencap funding.

The results indicate that Vencap is contributing to the provincial economy by generating substantial employment in Alberta, encouraging the development of new products and new export markets, supporting the purchase of goods and services in the province, contributing significant payments to the Alberta and federal governments, and engaging in the transfer of essential management skills to emerging businesses.

The Vencap portfolio is well diversified, limiting the risk associated with venture investments, and many Vencap affiliate companies are involved in research and development which is expected to result in important technology opportunities for Alberta in the longer term.

The economic impact of Vencap on Alberta has been significant and is expected to increase over the next five years. Typically, venture capital portfolios achieve target investment returns 8 to 10 years into operation. Vencap's portfolio is in its early stages of development according to the norms of the venture capital industry. For these reasons, the economic impact of Vencap on the Province of Alberta is expected to increase as the portfolio of affiliate companies matures over the next 3 to 5 years.

In conclusion, Vencap has already had a significant positive impact on the Province of Alberta, and many of the benefits expected to flow from Vencap's investments are yet to materialize.